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Helpful activities to
strengthen American...

Washington, D.C.

1916

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308
Z U.S. Federal trade commission.
Box 40 Helpful activities to strengthen American business. [Washington, Govt. print. off., 1916,
4 p. 23cm.

Caption-title.

only Ed

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TECHNICAL MICROFORM DATA

FILM SIZE: 35 mm

REDUCTION RATIO: 11:1

IMAGE PLACEMENT: IA (11A) IB IIB

DATE FILMED: 2-4-97

INITIALS: MS.

TRACKING #: 20844

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FEDERAL TRADE COMMISSION

WASHINGTON, D. C.

JANUARY, 1916.

LEONIDAS L. BRACKEN
Secretary

HELPFUL ACTIVITIES
TO
STRENGTHEN AMERICAN BUSINESS

The Vice Chairman of the Federal Trade Commission, Mr. Edward N. Hurley, on account of his practical business experience, was requested by the Commission to suggest plans for helpful activities.

Following is a statement Mr. Hurley has prepared, setting forth the nature of some of these plans:

Among the several methods by which the Federal Trade Commission can be of constructive help to American business, there are two of particular importance. One of these is to aid the business men of the country in obtaining the additional credits to which their business operations may entitle them. The second is to aid in improving accounting practice and in establishing better standards of bookkeeping and cost accounting. The two are interdependent.

AIDS TO OBTAINING CREDIT

The small manufacturer, the country storekeeper, and the retail merchant often do not get at the banks the credit that they ought to receive, owing to the fact that they are unable to present balance sheets in accordance with good business practice. These men as a rule are just as good business men, in many respects, as those of larger operations. They have brains, ability, knowledge of their wares and of their customers, but they do not speak the language of the banker in that they are not able to present a statement showing their true assets and liabilities.

Frequently a business man with a credit of a few hundred dollars at his bank, based wholly on personal grounds, could, if he

could produce a reliable balance sheet, readily obtain sufficient credit to enable him to rapidly expand his business along sound lines. Failing to obtain such credit, his business is limited and confined.

Ability to borrow at the bank has a far-reaching effect on all credit, because to the bank, primarily, are directed inquiries for a rating of a manufacturer or merchant seeking credit for goods. An unfavorable or noncommittal report from the bank results in a curtailment of opportunity. It also checks expansion.

Bankers are in business to loan money to business men, and recognize that loans made on balance sheets that show a healthy condition are desirable loans. The banker will welcome any standard form of statement that will permit him easily to ascertain the exact liabilities and assets of his customer.

STANDARDIZING ACCOUNTING SYSTEMS

It is recognized that no one standard system of accounting is applicable to all classes of business, but that special systems are required for each group or class of commerce and industry. For example, the coal industry can use a substantially standard system of accounting; similarly, the country store and general store retailer, the wholesale grocer, the retail grocer, the boot and shoe wholesaler, the boot and shoe retailer, the drug store, the manufacturer of textiles, the manufacturer of machinery, the wholesale clothier, the retail clothier. It is true that a great many systems could be adapted for use in lines other than those for which they are originally arranged, as certain fundamental principles underlie the general structure of accountancy which must be recognized by each group.

The Commission, however, while recognizing the commercial advantages to be derived from uniformity of systems, does not advise making a change where systems already installed give adequate information and are economically operated.

IMPORTANCE OF A KNOWLEDGE OF TRUE COSTS

The fact must be admitted that in order to put a selling price on a product a manufacturer must first know what it costs to manufacture and sell it. When business was done on a large percentage of profit this was not so essential, but in most lines of industry to-day the large percentage of profit has passed. Manufacturers are working on smaller margins and must abso-

lutely know what their goods cost. Any unreliable method of arriving at cost figures, with margins of profit so close, must be eliminated.

It is a fact well understood among business men that the general demoralization in a large number of industries has been caused by firms who cut prices not knowing what their goods actually cost to manufacture, and the cost of selling, which is equally important, is almost wholly lost sight of.

A manufacturer who does not know with a close degree of accuracy what it costs him to produce the different articles he manufactures and what it costs him to sell them, is not in a position to intelligently meet competition and invites business disaster.

Many of the larger manufacturers have thorough cost accounting systems, which they recognize as necessary in order to give them the information essential to successful management. On the other hand, the number of smaller manufacturers who have no adequate cost accounting system and who price their goods arbitrarily is amazing.

Proper accounting for the smaller manufacturer is most essential. It is necessary for his success that he know on what particular article he is making a fair profit and on what he is making only a narrow margin of profit or losing money. If he has this information he can concentrate on the manufacture and sale of the product on which the profits are satisfactory.

Whole industries, in many instances, are suffering from a general lack of intelligent knowledge of cost.

HELPFUL ACTIVITIES

How can the Federal Trade Commission help cure these conditions?

The Commission has no intention and no desire to use compulsory methods. But it does hope to reach the desired end by encouraging improvements in accounting practice, by indorsing standard systems of bookkeeping and cost accounting, and by assisting in devising standard systems, either at the request of individual merchants and manufacturers or through the association that represents the industry. The Commission expects to have for this work an adequate force of experienced accountants and cost experts and has the services, in an advisory capacity, of public accountants of national reputation.

BENEFITS TO BE DERIVED

What may be expected from such activities of the Federal Trade Commission?

First. The individual enterprises will be helped. They will be enabled to know exactly where they stand. Their prices will be made on a solid basis of fact. There will be less unfair, unhealthy, and ruinous competition. Manufacturers and merchants will be able when seeking credit to produce to their bankers correct statements of their financial condition which will enable the bankers to extend to them the full credit to which they are entitled and which they need in order to expand their business.

Second. Employees will be benefited. They will be trained to more thorough and more accurate methods of work. This improved knowledge will increase their effectiveness and their individual value to their employers.

Third. The investor will be benefited. He will be able to invest his money with greater assurance of profit.

Fourth. The public will be benefited; it will not have to pay for inefficient methods and practices.

In European countries manufacturers and merchants, aided by their Governments, have developed a high state of efficiency, which enables them to sell their goods in the markets of the world. The Federal Trade Commission desires to do what it can to aid the American manufacturer and merchant to meet this competition in both domestic and foreign trade.

MSH 20844

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